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UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE

)
)
In the Matter of)
)

Case No. 91-86A

MERRILL LYNCH, PIERCE, FENNER)
& SMITH INCORPORATED)
)

ORDER

The Office of Antiboycott Compliance, Bureau of Export Administration, U.S. Department of Commerce ("Department"), having determined to initiate an administrative proceeding pursuant to Section 11(c) of the Export Administration Act of 1979, as amended (50 U.S.C.A. app. §§ 2401-2420 (1991 & Supp. 1997))(the "Act")¹ and the Export Administration Regulations (currently codified at 15 C.F.R. Parts 730-774 (1997)), against Merrill Lynch, Pierce Fenner & Smith Incorporated ("MLPF&S"), a domestic concern resident in the State of New York, based on the allegations set forth in the Proposed Charging Letter, dated August 28, 1997, attached hereto and incorporated herein by this reference;

¹ The Act expired on August 20, 1994. Executive Order 12924 (3 C.F.R., 1994 Comp. 917 (1995)), extended by Presidential Notices of August 15, 1995 (3 C.F.R., 1995 Comp. 501 (1996)), August 14, 1996 (3 C.F.R., 1996 Comp. 298 (1997)) and August 13, 1997 (62 Fed. Reg. 43629, August 15, 1997), continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C.A. §§ 1701-1706 (1991 & Supp. 1997)).

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The Department and MLPF&S having entered into a Settlement Agreement, incorporated herein by this reference, whereby the parties have agreed to settle this matter; and

The Assistant Secretary for Export Enforcement having approved the terms of the Settlement Agreement:

IT IS THEREFORE ORDERED THAT,

FIRST, a civil penalty in the amount of \$3,500 is assessed against MLPF&S;

SECOND, MLPF&S shall pay to the Department, in complete settlement of this matter, the sum of \$3,500 within twenty (20) days of service of this Order as specified in the attached instructions;

THIRD, as authorized by Section 11(d) of the Act, the timely payment of the sum of \$3,500 is hereby made a condition to the granting, restoration or continuing validity of any export license, permission, or privilege granted, or to be granted, to MLPF&S. Accordingly, if MLPF&S should fail to make payment in a timely manner, the undersigned will enter an Order under the authority of Section 11(d) of the Act denying all of MLPF&S's export privileges for a period of one year from the date of the entry of this Order; and

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FOURTH, the Proposed Charging Letter, the Settlement Agreement and this Order shall be made available to the public, and a copy of this Order shall be served upon MLPF&S. This Order is effective immediately.

Frank W. Deliberti

Frank W. Deliberti
Acting Assistant Secretary
for Export Enforcement

Entered this 29th day of September, 1997

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INSTRUCTIONS FOR PAYMENT OF CIVIL PENALTY

1. The civil penalty check should be made payable to:

U.S. DEPARTMENT OF COMMERCE

2. The check should be mailed to:

U.S. Department of Commerce
Bureau of Export Administration
Room 622
14th & Constitution Avenue, N.W.
Washington, D.C. 20230

Attention: Miriam Cohen

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UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE

)
)
In the Matter of)

MERRILL LYNCH, PIERCE, FENNER
& SMITH INCORPORATED)
)
)

Case No. 91-86A

SETTLEMENT AGREEMENT

This agreement is made by and between Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a domestic concern resident in the State of New York, and the United States Department of Commerce ("Department"), pursuant to Section 766.18(a) of the Export Administration Regulations (currently codified at 15 C.F.R. Parts 730-774 (1997)), issued pursuant to the Export Administration Act of 1979, as amended (50 U.S.C.A. app. §§ 2401-2420 (1991 & Supp. 1997)) (the "Act").¹

WHEREAS, the Office of Antiboycott Compliance, Bureau of Export Administration, U.S. Department of Commerce, has notified MLPF&S of its intention to initiate an administrative proceeding against MLPF&S pursuant to Section 11 (c) of the Act by issuing the Proposed Charging

¹ The Act expired on August 20, 1994. Executive Order 12924 (3 C.F.R., 1994 Comp. 917 (1995)), extended by Presidential Notices of August 15, 1995 (C.F.R., 1995 Comp. 501 (1996)), August 14, 1996 (3 C.F.R., 1996 Comp. 298 (1997)) and August 13, 1997 (62 Fed. Reg. 43629, August 15, 1997), continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C.A. §§ 1701-1706 (1991 & Supp. 1997)).

Letter, dated August 28, 1997, a copy of which is attached hereto and incorporated herein by this reference; and

WHEREAS, MLPF&S has reviewed the Proposed Charging Letter and is aware of the allegations against it and the administrative sanctions which could be imposed against it if the allegations are found to be true; it fully understands the terms of this Settlement Agreement, and enters into this Settlement Agreement voluntarily and with full knowledge of its rights; and it states that no promises or representations have been made to it other than the agreements and considerations herein expressed; and

WHEREAS, MLPF&S voluntarily disclosed to the Department the alleged violations made in the Proposed Charging Letter and agreed to pay the civil penalty proposed herein; and

WHEREAS, MLPF&S neither admits nor denies the truth of the allegations, but wishes to settle and dispose of the allegations made in the Proposed Charging Letter by entering into this Settlement Agreement; and

WHEREAS, MLPF&S agrees to be bound by the appropriate Order ("Order") when entered;

NOW, THEREFORE, MLPF&S and the Department agree as follows:

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1. Under the Act and the Regulations, the Department has jurisdiction over MLPF&S with respect to the matters alleged in the Proposed Charging Letter.
2. In complete settlement of all matters set forth in the Proposed Charging Letter, MLPF&S will pay to the Department, within 20 days of service upon it of the appropriate Order, when entered, the amount of \$3,500.
3. As authorized by Section 11(d) of the Act, timely payment of the amount agreed to in paragraph 2 is hereby made a condition of the granting, restoration, or continuing validity of any export license, permission, or privilege granted, or to be granted, to MLPF&S. Failure to make payment as described in paragraph 2, above, shall result in the denial of all of MLPF&S's export privileges for a period of one year from the date of entry of the appropriate Order imposing the civil penalty.
4. Subject to the approval of this Settlement Agreement pursuant to paragraph 9 hereof, MLPF&S hereby waives all rights to further procedural steps in this matter (except with respect to any alleged violation of this Settlement Agreement or the appropriate Order, when entered) including, without limitation, any right to:
 - A. An administrative hearing regarding the allegations in the Proposed Charging Letter;

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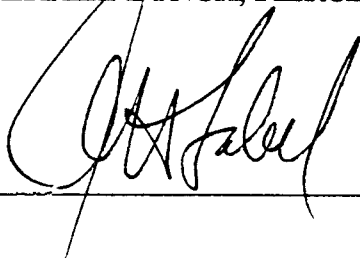
- B. Request a refund of the funds paid by MLPF&S pursuant to this Settlement Agreement and the appropriate Order, when entered; or
 - C. Seek judicial review or otherwise contest the validity of this Settlement Agreement or the appropriate Order, when entered.
5. The Department, upon entry of the appropriate Order, will not subsequently initiate any administrative or judicial proceeding, or make a referral to the Department of Justice for criminal proceedings against MLPF&S, with respect to any violation of Section 8 of the Act or Part 769 or redesignated Part 760 of the Regulations arising out of the transactions set forth in the Proposed Charging Letter or any other transaction that was disclosed to or reviewed by the Department in the course of its investigation.
6. MLPF&S understands that the Department will disclose publicly the Proposed Charging Letter, this Settlement Agreement, and the appropriate Order, when entered.
7. This Settlement Agreement is for settlement purposes only, and does not constitute a finding by the Department or an admission by MLPF&S that it has violated the Regulations or an admission of the truth of any allegation contained in the Proposed Charging Letter or referred to in this Settlement Agreement. Therefore, if this

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Settlement Agreement is not accepted and the appropriate Order not entered by the Assistant Secretary for Export Enforcement, the Department may not use this Settlement Agreement against MLPF&S in any administrative or judicial proceeding.

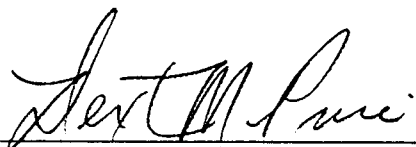
8. No agreement, understanding, representation or interpretation not contained in this Settlement Agreement may be used to vary or otherwise affect the terms of this Settlement Agreement or the appropriate Order, when entered, nor shall this Settlement Agreement bind, constrain or otherwise limit any action by any other agency or department of the United States Government with respect to the facts and circumstances herein addressed.
9. This Settlement Agreement will become binding on the Department only when approved by the Assistant Secretary for Export Enforcement by entering the appropriate Order.

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED



Date: 9/19/97

U.S. DEPARTMENT OF COMMERCE



Dexter M. Price
Acting Director
Office of Antiboycott Compliance

Date: 9/26/97



0618-18

PROPOSED CHARGING LETTER

August 28, 1997

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Word Financial Center
North Tower
New York, NY 10281

Re: Merrill Lynch, Pierce, Fenner & Smith
Case No. 91-86A

Gentlemen/Ladies:

We have reason to believe and charge that you, Merrill Lynch, Pierce, Fenner & Smith Incorporated have committed two (2) violations of the Export Administration Regulations (currently codified at 15 C.F.R. Parts 768-799 (1997)) (the "Regulations")¹ issued pursuant to the Export Administration Act of 1979, as amended (50 U.S.C.A. §§ 2401-2420 (1991 & Supp. 1997)) (the "Act").² We charge that on one (1) occasion with intent to comply with, further or support an unsanctioned foreign boycott, you knowingly agreed to refuse to do business with persons known or believed to be restricted from having any business relationship with or in a boycotting country pursuant to a requirement of, or request from or on behalf of, a boycotting country, in violation of §769.2(a) of the former Regulations. We also charge that on one (1) occasion you failed to report promptly to the U.S. Department of Commerce ("Department") your receipt of a request to engage in restrictive trade practices or boycotts, as required by

¹ The alleged violations occurred in 1991. The Regulations governing the violation at issue are found in the 1991 version of the Code of Federal Regulations (15 C.F.R. Parts 768-799 (1991)). Those Regulations define the violations that the Bureau of Export Administration alleges occurred and are referred to hereinafter as the former Regulations. Since that time, the Regulations have been reorganized and restructured; the restructured Regulations established the procedures that apply to the matters in this letter.

² The Act expired on August 20, 1994. Executive Order 12924 (3 C.F.R., 1994 Comp. 917 (1995)), extended by Presidential Notices of August 15, 1995 (3 C.F.R., 1995 Comp. 501 (1996)), August 14, 1996 (3 C.F.R., 1996 Comp. 298 (1997)), and August 13, 1997 (62 Fed. Reg. 43629, August 15, 1997), continued the Regulations in effect under the International Emergency Economic Powers Act, 50 U.S.C.A. §§ 1701-1706 (1991 & Supp. 1997).



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Section 769.6 of the former Regulations.

We allege that:

1. You are a domestic concern resident in the state of New York, and as such are a United States person as defined in Section 760.1(b) of the former Regulations.
2. During the period from January 1991 through September 1991, you engaged in activities involving the transfer of goods and/or services, including information, between the United States and Saudi Arabia, activities in the interstate or foreign commerce of the United States as defined in Section 769.1(d) of the former Regulations.
3. In connection with the activities described in paragraph 2, above, on or about January 9, 1991, you received a facsimile from Saudi Cairo Bank, Jeddah, Saudi Arabia, directing you to send a fixed income portfolio management proposal to Saudi Cairo Bank. Included in the bank's investment guidelines for the proposal was the following:

03 INVESTMENT INSTRUMENTS

...

There is a further restriction against investments in those companies in the Arab Boycott list. . . .

4. On or about May 8, 1991, you received from Saudi Cairo Bank an executed Merrill Lynch Asset Management management and custodial agreement that included an Institutional or Personal Trust Data sheet. Incorporated in the Institutional or Personal Trust Data Sheet were Saudi Cairo Bank's investment guidelines, which directed you as follows:

9. Credit Restrictions:

...

No exposure or trading can be taken with . . . banks\organizations on the Arab Boycott list.

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5. The instructions described in paragraphs 3 and 4, above, constitute a request to engage in restrictive trade practices or boycotts, which you failed to report to the Department as directed by Section 769.6 of the former Regulations. By failing to so report, you have committed one violation of Section 769.6 of the former Regulations. We hereby charge you with one (1) violation of Section 769.6.
6. Additionally, by failing to take exception to the language described in the transactions quoted in paragraphs 3 and 4, above, you knowingly agreed to refuse to do business with persons known or believed to be restricted from having any business relationship with or in a boycotting country pursuant to an agreement with, a requirement of, or a request from or on behalf of a boycotting country, an activity prohibited by Section 769.2(a) of the former Regulations and not excepted. We hereby charge you with one (1) violation of Section 769.2(a) of the former Regulations.

Accordingly, administrative proceedings are instituted against you pursuant to Section 11(c) of the Act and Part 766 of the Regulations for the purpose of obtaining an Order imposing administrative sanctions.³

You are entitled to a hearing on the record as provided in Section 11(c)(2)(B) of the Act. If you wish to have a hearing on the record, you must file a written demand for it with your answer. You are entitled to be represented by counsel, and under Section 11(i)(2) of the Act, to seek a settlement agreement.

If you fail to answer the allegations contained in this letter within thirty (30) days after service as provided in Section 766.6, such failure will be treated as a default under Section 766.7.

As provided in Section 766.3, I am referring this matter to the Administrative Law Judge. Pursuant to an Interagency Agreement between BXA and the U.S. Coast Guard, the U.S. Coast Guard is providing administrative law judge services, to the extent that such services are required

³ Administrative sanctions may include any or all of the following:

- a. Denial of export privileges (see Section 764.3(a)(2) of the Regulations);
- b. Exclusion from practice (see Section 764.3(a)(3) of the Regulations); and/or
- c. The maximum civil penalty of \$10,000 per violation (see Section 764.3(a)(1) of the Regulations).

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under the Regulations, in connection with the matters set forth in this letter. Therefore, in accordance with the instructions in Section 766.5(a) of the Regulations, your answer should be filed with:

U.S. Coast Guard ALJ Docketing Center
40 South Gay Street
Baltimore, Maryland 21202-4022

Attention: Administrative Law Judge

Also, in accordance with the instructions in Section 766.5(b) of the Regulations, a copy of your answer should also be served on the Bureau of Export Administration at:

Office of the Chief Counsel for Export Administration
Room H-3839
U.S. Department of Commerce
14th Street & Constitution Avenue, N.W.
Washington, D.C. 20230

Attention: Jeffrey E.M. Joyner, Esq.

Mr. Joyner may be contacted by telephone at (202) 482-5311.

Sincerely,

Dexter M. Price
Acting Director
Office of Antiboycott Compliance